

*Ann M. Menke*

**Certified Public Accountant**  
**A Professional Corporation**

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**CITY OF LONE TREE**

**INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT**

**FOR THE PERIOD**  
**JULY 1, 2012 THROUGH JUNE 30, 2013**

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## City of Lone Tree

### Officials

Name	Title	Term Expires
Rick Ogren	Mayor	January 1, 2014
Carl Kice Brown	Council Member	January 1, 2014
Mitch Swinton	Council Member	January 1, 2016
Sandra Flake	Council Member	January 1, 2016
Alyssa Coppinger	Council Member	January 1, 2014
Helen Lemley	Council Member	January 1, 2014
Merry Thomae	City Clerk	Indefinite
Stephen Greenleaf	Attorney	Indefinite

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**Independent Accountant's Report  
On Applying Agreed-Upon Procedures**

To the Honorable Mayor  
and Members of City Council  
City of Lone Tree, Iowa:

We have performed the procedures enumerated in Exhibit A, which were agreed to by the City of Lone Tree and the Iowa Office of Auditor of State, solely to assist in compliance with requirements for examination pursuant to Chapter 11.6 of the Code of Iowa. The procedures listed in Exhibit A were performed of the City of Lone Tree for the period July 1, 2012 through June 30, 2013. The City of Lone Tree's management is responsible for the City's annual examination. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards for attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the agreed upon procedures program guide prepared by the Office of Auditor of State. The sufficiency of these procedures is solely the responsibility of the Office of Auditor of State. Consequently, we make no representation regarding the sufficiency of the procedures described in Exhibit A either for the purpose for which this report has been requested or for any other purpose.

Based on the performance of the procedures described in Exhibit A, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed in Exhibit A.

We were not engaged to and did not conduct an audit of the operations of the City of Lone Tree, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Lone Tree, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lone Tree and other parties to whom the City of Lone Tree may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lone Tree during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Ann M. Menke*

Ann M. Menke, CPA, PC  
West Point, Iowa

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December 16, 2013  
PO Box 135 · 406 Avenue E  
West Point, Iowa 52656  
319-837-6042



3915 Main Street  
Keokuk, Iowa 52632  
319-524-1040

## **Detailed Recommendations**

**City of Lone Tree**  
**Detailed Recommendations**  
**For the Period July 1, 2012 through June 30, 2013**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling, and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling, and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation, and distribution.
5. Utilities – billing, collecting, depositing, and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should continue to review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Surety Bond Coverage – The City does have surety bond coverage in accordance with Chapters 64.13 and 64.15 of the Code of Iowa with a \$50,000 maximum for the clerk/treasurer and a \$25,000 maximum for all others.

Recommendation – The City should consider if the above listed coverage is adequate for the City's needs.

- (C) Accounting Procedures Manual – The City does not have a written accounting procedures manual.

Recommendation – The City should develop an accounting procedures manual to aid in training additional or replacement staff should the need arise.

- (D) Countersignature of Checks – Checks are signed only by the Clerk/Treasurer, who has almost complete control over the accounting system of the City.

Recommendation – Checks should be prepared and signed by one individual and then the supporting documentation should be made available, along with the check, to a second independent individual for review and countersignature.

**City of Lone Tree**  
**Detailed Recommendations**  
**For the Period July 1, 2012 through June 30, 2013**

- (E) Financial Reporting – The City has three bank accounts and a petty cash fund which were not recorded in the City's accounting system, budget, annual financial report, or reports to the council. The total balance in these accounts at year end was \$3,262.

Recommendation – The City should record all City owned accounts in its accounting system.

- (F) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee (CFC) on September 25, 2002.

Recommendation – To provide better financial information and control, the CFC chart of accounts, or equivalent, should be followed.

- (G) Deposits and Investments – The City's investment policy does not comply with Chapter 12B.10B of the Code of Iowa. In addition, the City's depository resolution does not state a maximum amount to be deposited at any given time.

Recommendation – The City should adopt a written investments policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (H) Wage Increases and Timecard Approval – One payroll tested did not have the employee hours approved prior to payroll being processed. Also, we noted that wage increases are approved as a percentage rather than by specific amounts.

Recommendation – The City should have someone in authority review and approve employee hours on all timecards prior to payroll being processed each pay period. Also, City Council should approve specific pay rates when approving pay increases to ensure there is no question as to what the approved hourly or salary rates are.

- (I) Unsupported Disbursements – One disbursement selected for testing for \$15.84 was not supported by a receipt. The disbursement was for fuel. One employee expense reimbursement was not supported by a receipt for \$9.63.

Recommendation – The City Council should establish written policies and procedures, including the requirements for proper documentation for instances when obtaining a receipt may not be possible. Such policies should be clearly communicated to city employees and city officials upon adoption.

**City of Lone Tree**  
**Detailed Recommendations**  
**For the Period July 1, 2012 through June 30, 2013**

- (J) Local Option Tax – The local option tax funds were recorded in the general fund. The ballot authorizing the local option tax states that the revenues are to be used for community improvements to include streets/curb and gutter, water, sewer, storm sewer, parks, and other community improvement projects.

Recommendation – The City should record local option tax revenues in a special revenue fund to properly track the revenues and ensure the funds are spent according to the ballot provisions.

- (K) Official's Utility Accounts – We noted that one council member has a history of being delinquent on her water bill. It was also noted that the City did not follow normal shutoff notice or procedures with this account.

Recommendation – City officials should keep their utility accounts current and the City should follow the same penalty and shut off procedures as it would for any other utility customer.

City of Lone Tree  
Exhibit A

The procedures performed for the City of Lone Tree are listed below:

**MINUTES & MISCELLANEOUS PROCEDURES:**

- A. Scan minutes for significant or unusual items.
- B. Select four meetings during the year being examined to review whether:
  - a. Minutes were properly signed as required by Chapter 380.7 of the Code of Iowa.
  - b. Meetings were preceded by proper notice.
  - c. The minutes show information sufficient to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa.
  - d. The passage of ordinances, amendments or resolutions were by a majority vote of all the members of the City Council rather than a majority vote of a quorum of the City Council as required by Chapter 380.4 of the Code of Iowa.
  - e. Minutes document the City Council followed proper proceedings for any closed sessions.
    - i. The session was closed by affirmative roll call vote of the city council.
    - ii. The specific exemption under Chapter 21.5 of the Code of Iowa.
    - iii. Final action was taken in open session.
  - f. Minutes were published within 15 days of the meeting as required by Chapter 372.13(6) of the Code of Iowa and included:
    - i. Total disbursements from each fund.
    - ii. A list of all claims allowed (including the reason for the claim).
    - iii. A summary of all receipts.
    - iv. A summary of ordinances or amendments adopted.
- C. Obtain copy of City's June 30 financial statements and/or reports.
- D. Verify and review surety bond coverage for reasonableness and compliance with statutory requirements for all officials and employees as required by Chapters 64.13 and 64.15 of the Code of Iowa.

**CASH & INVESTMENTS PROCEDURES:**

- A. Observe cash on hand, if any.
- B. Obtain one monthly Clerk's report and determine the report foots and trace ending fund balances to the general ledger.
- C. Cash In Bank and Investments:
  - a. Determine whether bank reconciliations are performed monthly.
  - b. Determine whether bank reconciliations are reviewed by an independent person.
  - c. Obtain bank reconciliations for two months and perform the following:
    - i. Verify reconciling items to support.
    - ii. Foot the bank reconciliations.
    - iii. Consider confirming bank account and investment balances.
    - iv. Obtain a list of outstanding checks at the end of the selected months. Ensure the list of outstanding checks includes check number, amount and date written for each listed check and verify listed outstanding checks cleared the bank after the selected months.
    - v. Trace reconciled balance for selected months to general ledger account balances and to monthly reports provided to the City Council.

City of Lone Tree  
Exhibit A

The procedures performed for the City of Lone Tree are listed below (Continued):

- d. Determine unclaimed property per Chapter 556.1(12) of the Code of Iowa has been reported to the State Treasurer annually before November 1 as required by Chapter 556.11 of the Code of Iowa.
- e. Determine a depository resolution which includes all depositories used by the City has been approved as required by Chapter 12C.2 of the Code of Iowa.
- f. Determine if the City has adopted a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.
- g. Obtain a schedule of investment transactions for the same two months (selected in procedure 3 above) and trace investment balances to the bank reconciliations.
- h. Determine investments held at the end of the selected months complied with the City's adopted investment policy and statutory provisions of Chapter 12B.10 of the Code of Iowa, as applicable.

**LONG-TERM DEBT PROCEDURES:**

- A. For general obligation, special assessment and revenue bonds or notes:
  - a. Determine general obligation debt payments were recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.
  - b. Determine and document procedures for bonds or notes sold during the current year were in compliance with Chapters 75, 384 and 403.9 of the Code of Iowa.
- B. Determine whether other long-term debt exists (lease-purchase agreements, deferred payment contracts, real estate contracts, loans, TIF development agreements, local option sales tax debt) and whether the debt is accounted for accurately.
- C. Issuance of Debt:
  - a. Review authorization for any issuances during the year being examined.
  - b. Determine debt proceeds were properly recorded and trace proceeds to cash receipts record and bank statement.

**TAX INCREMENT FINANCING PROCEDURES:**

- 1. Determine tax increment financing (TIF) collections were properly recorded in a separate Special Revenue Fund (TIF fund) as required by Chapter 403.19 of the Code of Iowa.
- 2. Determine the TIF collections in the TIF fund were disbursed or transferred to pay TIF obligations that qualify for payment (within the urban renewal plan) from TIF collections and such obligations were previously certified to the County Auditor as TIF debt and/or LMI.
- 3. Determine the following regarding the Tax Increment Debt Certificate:
  - a. The amounts certified (Form 1 and Form 1.1 for TIF debt not previously certified – or equivalent document) are supported and represent loans, advances, or other qualified indebtedness or bonds which qualify for payment from the TIF revenues for each urban renewal area in the City as required by Chapter 403.19(5)(a) of the Code of Iowa and the certificate was filed by December 1.

City of Lone Tree  
Exhibit A

The procedures performed for the City of Lone Tree are listed below (Continued):

- b. The City used Form 2 or an equivalent document to properly reduce TIF request if/when the total amount of the legally available TIF increment tax was not wanted.
    - c. The City certified (Form 3 or an equivalent document) a reduction to the amount previously certified by December 1 in the year action was taken which resulted in the reduction, as required by Chapter 403.19(5)(b) of the Code of Iowa.
  - 4. Annual Urban Renewal Report
    - a. Obtain the urban renewal report due December 1st of the fiscal year under examination and determine the:
      - i. Report was approved by the City Council and completed/filed on or before December 1st.
      - ii. Amounts reported on the Levy Authority Summary agree with City records.
    - b. Obtain and review the City's detailed TIF obligations (debt) listings and determine "TIF Debt Outstanding" on the Levy Authority Summary includes the following:
      - i. Certified Debt - TIF obligations outstanding, including principal and interest, certified to the County Auditor as of July 1st of the period covered by the urban renewal report and,
      - ii. Certifiable Debt - Outstanding TIF obligations incurred during the fiscal year covered by the urban renewal report, including annual appropriation debt not yet certified.
    - c. Determine rebate agreements, if any, have been properly reported as project(s), including total debt and expense.
    - d. TIF collections remaining after an urban renewal area is no longer active, if any, were returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.
  - 5. For urban renewal areas with public improvements related to housing and residential development, determine if assistance for low and moderate income (LMI) housing was provided in accordance with Chapter 403.22 of the Code of Iowa.

**FUND BALANCE PROCEDURES:**

- 1. Determine the City is using fund accounting and each fund is properly classified in accordance with the Uniform Chart of Accounts.
- 2. For enterprise funds with deficit balances, determine if there is a net earnings violation (book transfers are made to sinking accounts per the bond/note resolution, but if the operating accounts are in a deficit position, the sinking accounts are not backed by cash) and comment if appropriate.
- 3. Determine projects are appropriately accounted for in separate capital projects accounts.
- 4. Examine journal entries and other adjustments made directly to the general ledger.
  - a. Select specific journal entries and determine whether:

City of Lone Tree  
Exhibit A

The procedures performed for the City of Lone Tree are listed below (Continued):

- i. The journal entries are reasonable and are supported.
  - ii. The journal entries are approved by an independent person and there is documented evidence of the approval.
- 5. Annual Financial Report (AFR):
  - a. Compare AFR to City's general ledger to determine if amounts agree.
  - b. Beginning and ending fund balances were reported accurately.
  - c. RUT transactions were reported accurately in the Special Revenue fund.
  - d. Total receipts and disbursements agreed with City records.
- 6. Transfers:
  - a. Obtain a list of all fund transfers during the year.
  - b. Review transfers for propriety and document findings.
  - c. Determine transfers were recorded in the proper fund.
  - d. Trace transfers to approval in the minutes or budget, as applicable.

RECEIPTS PROCEDURES:

- A. Verify the City is using the Uniform Chart of Accounts to classify receipts in the general ledger.
- B. Perform a receipts to deposit test for one month (reconciling deposits per the bank statement to general ledger receipts) and consider the possibility of undeposited receipts.
- C. Property Tax:
  - a. Verify electronic deposit of twelve property tax payments during the year.
  - b. Trace one month's property tax collections to general ledger posting.
  - c. Total and trace to budget for reasonableness.
- D. Governmental Revenue:
  - a. Obtain copy of State confirmation from the Auditor of State's Office and reconcile amounts per confirmation with the general ledger.
- E. Enterprise Revenues (Water, Sewer, Electric, etc.):
  - a. Determine if a monthly and/or year-end list of delinquent accounts is maintained and obtain a copy of the listing. If not available, comment accordingly.
  - b. Determine if monthly reconciliations of billings and collections are prepared.
    - i. If not available, perform analytical procedures to compare amounts billed to amounts collected and deposited.
    - ii. If available:
      - 1. Apply procedures to determine the accuracy and completeness of the reconciliation for one month and/or at year-end.
      - 2. Comment accordingly if variances have not been adequately resolved.
  - c. Review City officials' accounts (including the Utility Clerk's account). Trace selected month(s) billing(s) to collection/deposit.

City of Lone Tree  
Exhibit A

The procedures performed for the City of Lone Tree are listed below (Continued):

F. General:

- a. Scan ledgers or receipts detail for unusual receipts. Investigate accordingly.
  - b. Scan deposit tickets and evaluate the reasonableness of amounts of currency deposited, considering the types of receipts expected to be received in currency.
- G. Determine local option sales tax receipts were expended as required by local ballot provisions. Review a copy of the ballot authorizing the local option tax.

DISBURSEMENT PROCEDURES:

- A. Obtain a schedule of all related party transaction with officials or employees and review for compliance with Chapter 352.5 of the Code of Iowa.
- B. Scan disbursement journal for unusual disbursements. Investigate accordingly.
- C. Scan all cancelled checks/images looking for checks to City personnel, unusual vendors and "cash."
  - a. Examine checks payable to the City Clerk and other personnel authorized to issue/sign checks.
    - i. Review amount and frequency of checks.
    - ii. Determine if checks are appropriate.
  - b. Select five consecutive checks from alternating months and verify:
    - i. The disbursement is adequately supported.
    - ii. The amount and payee on the check match the general ledger posting.
    - iii. Disbursement was authorized by the City Council.
    - iv. Credit card transactions are approved and properly supported.
    - v. The disbursement appears to meet the test of public purpose. For those items which are questionable, the City should have adequate documentation as to how the expenditure(s) meet the test of public purpose.
- D. Review all bank statements for erasures/alterations and scan for unusual withdrawals and/or checks.
- E. If cancelled checks are not received, determine whether both the front and back of electronic check images are received as required by Chapter 554D.114(5) of the Code of Iowa.
- F. Determine the City applied for and received sales tax refunds on completed projects unless an exemption certificate was issued by the City for the contractor as required by Chapter 423.3(80)(b) of the Code of Iowa.
- G. Determine if disbursements by function are within the budget or amended budget.

PAYROLL PROCEDURES:

- A. Select five payroll transactions from throughout the year to test:
  - a. Authorization for gross pay or hourly rate.
  - b. Approval of hours worked.
  - c. Accuracy of the number of hours paid per the payroll journal to hours worked per approved timesheets (for hourly employees).

City of Lone Tree  
Exhibit A

The procedures performed for the City of Lone Tree are listed below (Continued):

- B. City Clerk and/or Payroll Clerk Pay
  - a. If salaried, reconcile the approved salary for the City Clerk and payroll clerk to the City Council approved salary.
  - b. If hourly, test selected paychecks for the City Clerk and payroll clerk to determine if the hourly rate paid agrees to the approved hourly rate.
- C. Ensure wage increases are approved by the City Council as an hourly rate or salary and not just as a percentage increase.
- D. Determine if Forms 941, W-2 and 1099 were filed with the Internal Revenue Service, as appropriate.

City of Lone Tree  
Staff

This examination was performed by:

Ann M Menke, CPA  
Carol Ross, CPA  
Kelly Nelton, CPA  
Kristy Adams, Staff Auditor